GOVERNMENT OF ANDHRA PRADESH

ABSTRACT

Energy, Infrastructure & Investment Department – Andhra Pradesh Port Policy, 2015 – Orders - Issued.

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ENERGY, INFRASTRUCTURE & INVESTMENT (PORTS.II) DEPARTMENT

G.O.Ms.No.14 Dated 27-11-2015.

Read the following

1. Letter No.INCAP (AP)/P/AP Port Policy/39/2014, dated 19-11-2014 from the Vice Chairman & Managing Director, Infrastructure Corporation of AP, Hyderabad.

2. Letters No.DoP/B3/505/2010., dated 06-04-2015, 16-06-2015 and 9-9-2015 from the Director of Ports, GoAP, Kakinada.

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ORDER

The State of Andhra Pradesh is naturally endowed with a coastline of about 974 km, the third longest in the country, and strategically located to enable it to become a natural gateway to the Eastern hemisphere.

2. Besides one Major Port i.e. Visakhapatnam Port, the state has 14 Non-Major port locations namely Bhavanapadu, Meghavaram, Kalingapatnam, Bheemunipatnam, Gangavaram, Nakkapalli, Kakinada SEZ, Kakinada Deep Water, Surasena Yanam/Rawa, Narsapur, Machilipatnam, Nizamapatnam, Vodarevu and Krishnapatnam. Besides these locations, the Department of Ports, on its own, is operating the Kakinada Anchorage Port for limited operations.

3. The state's ports are expected to play a crucial role in shaping the future development of the state and the entire East coast. This is borne by several economic and logistics trends.

4. In view of the above, Government of AP is contemplating to bring out a comprehensive Port Policy of Andhra Pradesh to cover the Planning, Development, Operations and Governance of Non-Major Ports in the State which encourage efficient and competitive environment in Port Development

5. The said AP Port Policy has been examined by the Government in a series of meetings with all the concerned and their suggestions, views have been incorporated in the A.P.Port Policy. As seen from the Policy, strategic view of the coastline, diversification of cargo, diversity of locations, increasing strategic depth of hinterland, enabling market oriented development, enabling institutional mechanism, integrated view of the supply chain are the issues and challenges proposed to be addressed through port policy.

6. The following are the strategic objectives of the port policy:

- To catalyze large-scale manufacturing-led economic development by leveraging the state's large coastline and make Andhra Pradesh the gateway integrating India into the global manufacturing supply chain.

- To make the State's non-major ports the preferred ports for container cargo from Central and North India.

- To encourage greater competition and transparency in port development through private sector.

- To enable commercial viability of port projects

- To set up an institutional mechanism to manage concessions
- To enable efficient and optimal use of scarce and sensitive coastline and coastal land resources, keeping in view future requirements and national security considerations
- Plan for port development to ensure efficient utilization of existing and planned port infrastructure, both common use and captive thereby enhancing capital efficiency of the investments.
- To ensure that state support, including land allotment and other forms of government investments are minimized and well-targeted to yield the maximum value for money.
- To consider ports as a part of logistics supply chain and incorporate a supply chain perspective in planning for current ports and future development
- To enable integrated development of ports along with industries and inland infrastructure connectivity. To create multimodal line and evacuation capacities that precedes port development and to actively consider connecting the ports to its key markets in primary, secondary and tertiary hinterland
- To be user-centric in terms of efficiency and competitive environment
- To prioritize judicious and efficient capacity utilization and competitiveness of ports, especially the existing ones, subject to this principle, new port capacity development shall be pursued in a planned and objective manner.
- Private sector development of Port infrastructure will be the preferred model
    - Procurement to be undertaken preferably with the help of model RFP/RFQs of the Ministry of Shipping, Government of India or any other model procurement documents which have competitive models with optimal risk sharing mechanism including Model Concession Agreements (MCA)
    - All ports shall operate on commercial and non-discriminatory principles, with open access for commercial cargo. Only in exceptional cases may Captive Ports be allotted, and which will need to be supported by appropriate business cases suitably justifying their inability to use existing/upcoming commercial port infrastructure.

7. The AP Port Policy, 2015 envisages to constitute a dedicated Andhra Pradesh Maritime Board ("Board") which shall be responsible for integrated planning, development and monitoring of all ports including concessions. Until the constitution of the Andhra Pradesh Maritime Board, the various functions proposed to be discharged by the Maritime Board shall, in the interim, be discharged by the State Government.

8. The policy shall become operational from the date of its notification until it is reviewed and revised. The provisions of the policy shall be reviewed and revised at the end of every five years, based on the experience of port development functions in the preceding five years period. The policy can also be reviewed at any time during the tenure if necessary.

9. Government hereby adopts the AP Port Policy, 2015 annexed herewith to this order, which comes into immediate effect.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESHH)

AJAY JAIN
SECRETARY TO GOVERNMENT

To
The Director of Ports, GoAP, Kakinada
The Vice Chairman & Managing Director, INCAP, Hyderabad.
All the District Collectors in A.P.
All Departments in AP Secretariat.
Copy to
The Secretary to C.M.
PS to Chief Secretary to Government
PS to Secretary to Government, E, I&I Department
Sf/Sc.

// FORWARDED :: BY ORDER //

SECTION OFFICER

Annexure to

G.O.Ms.No: 14, E,I&I (Ports.II) Department, Dated: 27.11.2015

# AP Port Policy, 2015

*Government of Andhra Pradesh*

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# 1. Introduction

## Background

The state of Andhra Pradesh is naturally endowed with a coastline of 974 km, the second longest in the country, and strategically located to enable it to become a natural gateway to the Eastern hemisphere.

Besides one major port, administered under the Major Port Trusts Act, i.e. Visakhapatnam port, the state has so far declared 14 non-major ports for development, administered by the Director of Ports, Government of Andhra Pradesh (GoAP). The 14 ports are - Bhavanapadu, Meghavaram, Kalingapatnam, Bheemunipatnam, Gangavaram, Nakkapalli, Kakinada SEZ, Kakinada Port (Kakinada Deep Water Port and Kakinada Anchorage Port),S.Yanam/Rawa,Narsapur,Machilipatnam,Nizampatnam, Vodarevu and Krishnapatnam. Of these ports, the Department of Ports, on its own, is operating the Kakinada Anchorage Port which has limited cargo handling operations.

Of the 14 ports, 3 are already operating under PPP concessions by private investors, namely Gangavaram Port, Kakinada Deep Water Port and Krishnapatnam Port. As of March 2015, these ports handled approximately 80million tonnes of cargo. Added to approximately 60 million tonnes of cargo handled by Vishakhapatnam Major Port, the state's coastline contributes to approximately 12% of the India's cargo throughput.

The Government of India plans to establish a major port at Dugarajapatnam. One more port (Machilipatnam Port) has been awarded on PPP basis by GoAP to a developer and is proposed to be developed as an all-weather commercial port.

| Name of the Port | Name of the Special Purpose Vehicle (SPV) | Date of CA/SA/ RA | Concession period (in years) | Status |
|---|---|---|---|---|
| **Gangavaram** | Gangavaram Port Limited | CA: 07-08-2003 | 30 years + extension of 2 spells of 10 years each | Operational |
| **Kakinada Deep Water** | Kakinada Seaports Limited | CA: 19-03-1999<br>SA-1: 25-08-2003<br>SA-2: 28-01-2009 | 30 years + extension of 2 spells of 10 years each | Operational |
| **Krishnapatnam** | Krishnapatnam Port Company Limited | CA: 04-01-1997<br>RA: 17-09-2004 | 30 years + extension of 2 spells of 10 years each | Operational |
| **Machilipatnam** | Machilipatnam Port Limited | CA: 21-04-2008<br>RA: 07-06-2010 | 30 years + extension of 2 spells of 10 years each | To be developed |

CA: Concession Agreement; SA: Supplementary Agreement; RA: Revised Concession Agreement
*Source: Department of Ports, Government of Andhra Pradesh*

In addition, 4 non-major ports have been offered through nomination route for handling of captive cargo. These include, Kakinada SEZ Port,Rawa Port, Meghavaram Port and Nakkapalli Port. Of the above, only RawaPort has commissioned operations and is operating on a small scale for handling liquid cargo.

The state is further considering development of the remaining locations under appropriate development models.

## Unique Advantages of the Coastline

The coastline of Andhra Pradesh has several advantages, some of which are enumerated below:

1. Availability of favorable sea-side features , including deep draughts and protected shore-fronts at many of the identified port locations.
2. The natural alignment of the coastline that makes it poised for greater competitiveness in handling cargo arriving from/destined to the Eastern hemisphere.
3. Availability of shore-front and land-side advantages in several greenfield locations which are relatively unobstructed by urban sprawl, and with ability to expand as large ports.
4. Connectivity backbone along the coastline in the form of the South-Eastern leg of the Golden Quadrilateral network (i.e. NH5), and the Kolkata-Chennai railway route which is already operated as an electrified double line trunk route.

## Development Trends in the Hinterland

The state's ports are expected to play a critical role in shaping the future development of the state and the entire east coast. This is borne out by several economic and logistics trends.

**1. Manufacturing-oriented Development and India's Act East Policy**

The Government of Andhra Pradesh has adopted a balanced development model, which will have an equal focus on industries, agriculture and services. Since the state lags behind manufacturing contribution to GDP, the state Government has identified several initiatives to rejuvenate the manufacturing sector in the state, including investments in National Manufacturing Investment Zones (NIMZs), aligned with the National Manufacturing Policy (NMP). This is expected to create a large demand for shipping and logistics of raw materials and manufactured goods through the coastline.

India's Look East Policy was initiated in 1991 which seeks to establish closer ties with East Asian economies as a means to realize its aspirations of becoming a global economic superpower. The erstwhile "Look East" policy has now been redeveloped as the "Act East" policy with a greater focus on developing projects which can improve our engagement with the East and South East Asian economies. The state's coastline is naturally suited for tighter integration with East Asian and South-East Asian economies in terms of participating in global manufacturing supply chains, which have hitherto largely bypassed the sub-continent, and the ports of the coastline are expected to play an important part in this process. The State government seeks to leverage its locational advantage and pursue a port-led economic

development strategy that could also result in the State emerging as the node integrating India into the global manufacturing supply chain.

**2. Vizag Chennai Industrial Corridor**

The Vizag Chennai Industrial Corridor (VCIC), is one of the major initiatives in this regard. The proposed Corridor is a part of the East Coast Economic Corridor (ECEC), nation's first coastal corridor, aligned to the Golden Quadrilateral and is envisaged to play a key role in India's Look East Policy. The proposed Corridor shall also form an important part of the Government of India's plan for providing impetus to economic development in the region.

VCIC is expected to have an Influence Area spread across the states of Andhra Pradesh and Tamil Nadu which have significant share of contribution to national GDP and total manufacturing output of the country. 11 districts in AP (Srikakulam, Vizianagaram, Visakhapatnam, East Godavari, West Godavari, Krishna, Guntur, Prakasam, Nellore, Kadapa and Chittoor) fall in the influence zone. These districts represent almost 80% of the state's area and are expected to become home to various industrial nodes providing a renewed thrust to domestic and export-oriented manufacturing. This will in turn, create demand for both in-bound and outbound logistics through the port networks.

**3. Other Manufacturing-led developments in the region**

Special Investment regions like the Petroleum and Petrochemical Investment Regions (PCPIR), such as the ones near the Kakinada-Srikakulam region will create demand for commodity-specific port infrastructure. Further, other industrial corridors like Chennai-Bangalore Industrial Corridor (CBIC) and Bangalore-Mumbai Economic Corridor (BMEC) will create cargo opportunities in the secondary hinterland.

These developments will create large cargo traffic opportunities for ports in the peninsular region. However, with environmental restrictions affecting the Karnataka coastline development, BMEC may either look northwards at the congested ports of Mormugao and JNPT, or seek the Andhra Coastline for cargo evacuation facilities. Likewise, the CBIC corridor faces port capacity expansion challenges in the Chennai-Ennore region, and therefore the industrial developments in CBIC will seek Andhra coastline as the natural choice for its cargo evacuation needs.

Considering the fact that the coastline of Andhra Pradesh has sufficient developable capacity, it is best suited to benefit from these multiple corridor development initiatives. In addition, it is best suited to capture existing and incremental traffic from competing port clusters, which are facing serious congestion.

## Shipping and logistics trends

It is estimated that that as of Mar 2015, more than 50% of the existing order book of shipping liners (by DWT and GT) comprised of 10,000+ TEU container ships. Such larger ships are increasingly more in demand as they are expected to bring down maritime transportation costs by around 30% -40%. With the intensification of container trade in the region, larger

vessels will be preferred by the liners on main trunk-line routes, with smaller vessels deployed on feeder routes.

Similar trends of increased vessel sizes are also observed in bulk cargo vessels that are used for movement of critical materials like coal, iron ore and liquids. These trends will have the effect of reducing the landed cost of the raw materials, thereby directly aiding manufacturing competitiveness. With increase in vessel sizes, there will be requirement of deep draft ports, modern equipment such as cranes with increased outreach, coupled with large capacity for evacuation. Andhra Pradesh coastline has an excellent natural advantage in its ability to develop such modern and large capacity ports that can help enable competitive logistics and consequently competitive manufacturing activity in the corridor.

## Issues and challenges proposed to be addressed through port policy

- **Strategic view of the coastline**: Coastline and waterfront are scarce resources which have to be judiciously deployed, and port development philosophy has to take cognizance of these limitations. Limitation of land available for providing to ports for development, especially in proximity to the coastline, is a key challenge that needs to be recognized. Further, the existing and future port developments will have to suitably planned to make the most efficient use of the scarce coastal land available.

- **Diversification of Cargo**:At present, a significant majority of the cargo throughput through the current operational ports in Andhra Pradesh is in bulk commodities, with a significant concentration of low-value added cargos such as coal, iron ore and liquids. With increase in industrialization in the region through development of industrial and economic corridors, container cargo is expected to increase substantially. Given the availability of a long coastline, which coupled with proper planning, can enable the state to cater to the expected increase in container traffic, apart from increasing quantum of bulk traffic.

- **Diversity of locations**: Despite fully-functional and well-connected Greenfield locations, the overall share of non-major ports in the state is observed to be only around 57% of total Andhra Pradesh port traffic as of March 2015. Visakhapatnam, despite being constrained by evacuation issues and lack of land availability has been the dominant port. However it is facing congestion issues and therefore it is necessary to diversify port locations in order to provide more options for port users.

- **Increasing strategic depth of hinterland**: Much of the cargo throughput through the state's ports is generated or consumed proximally. However, considering the strategic location of the coastline, there is a need to tap into opportunities that arise in the larger interior hinterland. This would include positioning the State's non-major ports, as the ports of choice for container cargo traffic from the northern and central regions of the country, by developing the requisite logistics infrastructure linkages,. Hinterland cargo is expected to play a crucial role in increasing the traffic at the existing and upcoming ports in Andhra Pradesh.

- **Enabling market-oriented development:** Enabling private sector investment in a transparent manner will be an important consideration for bringing in market-oriented development and efficiency.

- **Enabling institutional mechanism**: A formal institutional mechanism to administer, guide, monitor, enable and plan the development and operation of all non-major ports, in an organized manner will be established.

- **Integrated view of the supply chain**: Development of ports will need to have an integrated supply chain view. Development planning will therefore integrate aspects including connectivity, infrastructure for supply chain, storage and distribution logistics, and industrial development of the hinterland, with a focus towards lowering the total cost of logistics. This will in turn be focused on enabling competitive development of manufacturing and industries in the state.

## 2. Strategic Objectives of the port policy

- To catalyze large-scale manufacturing-led economic development by leveraging the state's large coastline and make Andhra Pradesh the gateway integrating India into the global manufacturing supply chain.

- To make the State's non-major ports the preferred ports for container cargo from Central and North India.

- To encourage greater competition and transparency in port development through private sector

- To enable commercial viability of port projects

- To set up an institutional mechanism to manage concessions

- To enable efficient and optimal use of scarce and sensitive coastline and coastal land resources, keeping in view future requirements and national security considerations

- Plan for port development to ensure efficient utilization of existing and planned port infrastructure, both common use and captive, thereby enhancing capital efficiency of the investments

- To ensure that state support, including land allotment and other forms of government investments are minimized and well-targeted to yield the maximum value for money.

- To consider ports as a part of logistics supply chain and incorporate a supply chain perspective in planning for current ports and future development

- To enable integrated development of ports along with industries and inland infrastructure connectivity. To create multimodal line and evacuation capacities that precedes port

development and to actively consider connecting the ports to its key markets in the primary, secondary and tertiary hinterland

- To be user-centric in terms of efficiency and competitive environment
- To prioritize judicious and efficient capacity utilization and competitiveness of ports, especially the existing ones. Subject to this principle, new port capacity development shall be pursued in a planned and objective manner.
- Private sector development of port infrastructure will be the preferred model
  - Procurement to be undertaken preferably with the help of model RFP/ RFQs of the Ministry of Shipping, Government of India or any other model procurement documents which have competitive models with optimal risk sharing mechanisms including model concession agreements (MCA).
  - All ports shall operate on commercial and non-discriminatory principles, with open access for commercial cargo. Only in exceptional cases may Captive Ports be allotted, and which will need to be supported by appropriate business cases suitably justifying their inability to use existing/upcoming commercial port infrastructure.

## 3. Targets

- **Containers**
  - Capture 15% of India's container traffic by 2019 (2-3 mTEUs) and 25% by 2025 (5-6 mTEUs). This is against the current traffic (2014-15) of 0.3 m TEUs at Andhra Pradesh which is less than 0.3% of the total traffic at all India level. The target numbers have considered the projections adopted by National Maritime Agenda 2020.
  - Target brownfield development of 2-3 mega container ports, with ability to handle large container vessels of 10,000+ TEUs, with necessary supporting multimodal connectivity and supply chain/logistics infrastructure
  - Target more than 70% of India's east-bound container traffic by 2025
  - Productivity targets for contracted out non-major ports to be dynamically set based on past experience so as to ensure the most efficient utilization of scarce coastal resources
  - State will lead the country in containerization trends, with increasing sophistication and value-added through container cargo
  - The state's ports will strive for a balance of exports and imports of containers
- **Bulk**
  - The state's non-major ports handled 83million tonnes of bulk traffic in 2014-15(both liquid and dry bulk), which represents roughly 8% of all-India traffic. The state will aspire to capture 10% of India's bulk traffic by 2019 (expected:250million tonnes per annum) and 15% of India's bulk traffic by 2025 (expected:500million tonnes per annum)

- Ports will be developed as part of the strategy to serve the industrialization interests of Andhra Pradesh with Prioritize capacity development emphasizing on 3 cargo segments:
  - **Energy:** To be linked to ensuring energy sufficiency for the state – for example, coastal thermal power plants and LNG-linked energy chain
  - **Essential Commodities and commodities feeding heavy industries:** fertilizers, limestone, fertilizer raw materials, iron ore and coking coal, either directly consumed or processed by large scale heavy industries.
  - **Export-oriented industries**: In-bound and outbound logistics aiding large-scale export oriented industries located close to the state, including petrochemical products
- Capacity development for export of unprocessed raw materials will be given the least priority and its proportion in commodity mix will be minimized
- Enable lowest total cost of logistics for bulk movement: Encouragement of large ports (100 million tonnes per annum), deep-draught vessels, mechanization and coast-based industries

## 4. Contours of the port policy

- The integrated port policy is designed to cover the planning, development, operations and governance of following distinct areas:
  - **Ports**: The policy shall apply to all the existing and future ports in the state, defined as any non-major Port within such limits as may, from time to time, be defined by the State Government under the Indian Ports Act, 1908 and will be governed by the proposed AP Maritime Board (having its own charter)
  - **Port proximal area development**: For each "port" governed under this policy, a port-proximal area shall be notified, which is defined as the land area upto and within a distance of 30 km measured outward towards the land side from the port's limits but not exceeding beyond its exclusivity limits along the shore which are defined under the concession agreement.

## 5. AP Maritime Board

The state shall constitute a dedicated Andhra Pradesh Maritime Board ("Board") which shall be responsible for integrated planning, development and monitoring of all ports including concessions. Until the constitution of the Andhra Pradesh Maritime Board, the various functions proposed to be discharged by the Maritime Board shall, in the interim, be discharged by the Director of Ports of the State Government.

- The Board shall have the following principal functions:

- The AP Maritime Board will maintain a rolling AP Maritime Master Plan to achieve the policy targets, with capacity development forecasts of current ports and updated utilization, supported by further technical studies where necessary that will inform timelines for further infrastructure creation

- The Board shall be empowered to be the state's regulator for all non-major ports, on all maritime aspects vested under the State List. It will perform its functions in a light-handed and transparent manner.

- The Board shall exercise all rights and privileges available to it to ensure speedy development of the port sector in Andhra Pradesh in a fair and transparent manner. The ports shall be developed in conformity with the approved masterplans and other applicable provisions. To check the conformance of the development to the technical parameters the Board may appoint an Independent Engineer. The Board shall also ensure that ports exercise the commercial and operational freedom available to them under the policy, the concession agreement and other agreements.

- Without prejudice to its powers and functions as a statutory authority, in performing its regulatory functions for ports that have been already awarded for private development, the Board shall, as a matter of principle, not act in any way that violates the terms of the state's existing agreements with the non-major ports already awarded for development to private investors. The Board shall take a comprehensive view of the duties and obligations outlined in all related agreements, including concession agreement, and their covenants in deciding its course of action.

- The state government shall delegate agency rights to the Board with respect to existing concessions, state support agreements and land lease agreements. The Board will become the custodian of the State Government's assets and interests in these agreements for their designated tenures. To this extent, the Board shall hold periodic reviews to ensure effective contract management and adherence to contractual obligations by the concessionaire and the Government/its agencies.

- The Board shall be responsible for awarding future concessions. The Board shall prepare the principles of concession agreements for non-major ports in Andhra Pradesh guided by the port policy, and shall be responsible for the procurement process for selection of developers for the future non-major ports planned in Andhra Pradesh. The Board shall be the designated counterparty for performing the rights and obligations of the state government of Andhra Pradesh under these concession agreements. While a template concession agreement will be prepared for guidance based on model concession agreement for green field ports of the Ministry of Shipping, the actual agreements will be customized and decided on a case-by-case basis.

- The Board shall decide development models for Greenfield ports, including decisions on captive or commercial as well as the timelines of development.

- The Board shall define performance parameters - based on the existing concession agreements, consultations with the developers, a capacity audit, and in accordance with national and international operational benchmarks - for each non-major port, and shall be responsible for ensuring adherence to those standards. This is critical to ensuring the efficient and optimal utilization of scarce and valuable contracted out public resources.

- The Board shall conduct periodic financial audits and performance audits of the operations.In addition the board would monitor the rolling Master Plan target realizations against the defined performance standards, adherence of the concessionaire to contractual obligations, conduct independent user surveys, and make available these reports in the public domain.

- The Board will also govern other allied infrastructure sectors:

  - For assisting with creation of allied infrastructure, if required, the Board shall create Special Purpose Vehicles, which will develop and implement allied infrastructure, such that:

    - Government's investment (if any) in creation of land-side and sea-side infrastructure (dredging, inland waterways, sea-front facilities etc.) will be routed through such Special Purpose Vehicles

    - Specific infrastructure to support shipbuilding and ship repair, Inland Waterways (to the extent not covered under National Waterways) etc. shall be routed through such Special Purpose Vehicles

    - In addition to grants and loans received from government from time to time, the Board shall have the right to levy waterfront royalty on cargo shipped / imported by exporters / importers at rates specified from time to time. Funds collected will be used for infrastructure creation, both inside and outside the ports.

    - The Board shall also have the right to advise any concessioned ports on creation of additional jetties within their port limits, subject to non-availability of capacity on commercial basis, and upon payment of appropriate dues by the additional port users to the port concessionaire, including port dues.

## 6. Evacuation Strategy

- The state shall play an anchor role for planning appropriate evacuation infrastructure through rail road and waterway, in a way that precedes port capacity development.

- AP Maritime Board shall undertake a capacity audit of all port connectivity projects and create the following pipeline of projects

- Capacity planning for last-mile road and rail evacuation infrastructure for easing bottlenecks at current ports,
- Capacity planning for last-mile road and rail evacuation infrastructure for enabling further capacity expansion (taking a short term 5-year view and a medium term 10 year view) for ports operational or awarded for development.
- Capacity planning for last-mile road and rail evacuation infrastructure for enabling upcoming port capacity for the next 10 years

- The Board shall play a responsive facilitator role in enabling investments by the private developers for timely fulfillment of planned provisions. It shall also ensure that the projects are planned and financed through appropriate models (government, private or PPP models), coordinated with various agencies and shall assist in execution by facilitating necessary clearances.

## 7. Further Development of the coastline

The Coastline is the strength of Andhra Pradesh and 9 out of 13 districts of the State are coastal districts. The state has adopted a port led development strategy aligned with the development principles of the Sagarmala Project.

A set of infrastructure projects have already been formulated as proposals under the Sagarmala Project. These include road and rail connectivity projects, logistics parks and also urban infrastructure projects in the neighboring urban agglomerations.

The strategic location of the state is undeniable with respect to the trade with East and South East Asia. Trading economies such as Japan and China have over 160 and 190 ports respectively. Even the State of Gujarat on the west coast has been able to exploit its maritime assets well with 10 State Ports, 4 Greenfield ports, 1 major port and a large number of captive and under development ports.

The State Government recognizes the need to develop its coastline through non-discriminatory projects providing open access to all consumers. In this regard the State Government is preparing a coastal Masterplan through reputed consultant to identify potential projects for development along the coast.

## 8. Categories of ports and policies

All the existing and proposed ports in the state will be divided in the following categories:

- **Category 1**: Ports earmarked for future development – Currently these comprise the ports of Vodarevu, Nizampatnam, Narsapur, Bhavanapadu, Kalingapatnam and Bheemunipatnam. Ports may be added or deleted to this list based on any further study and/or decision by the State Government/AP Maritime Board

- **Category 2**: Ports under PPP Concessions awarded to private investors – currently these comprise the ports of Gangavaram, Kakinada Deep Water Port, Machilipatnam and Krishnapatnam

- **Category 3**: Ports under concessions awarded to private investors for development as captive port – currently these comprise the ports of Kakinada SEZ, Rawa, Meghavaram and Nakkapalli

- **Category 4**: Ports under the state, as owner-operator – currently this comprises the Kakinada Anchorage Port

### Category 1: Ports earmarked for future development

- Based on its rolling Master Plan and other studies, the Board shall shortlist or identify port locations for Greenfield development from time to time. This shall be done keeping in view the traffic potential and the sustainability of the existing ports in the state. The broad guidelines for establishing new ports are as follows:

    - While undertaking Techno-Economic Feasibility Report (TEFR) studies, a comprehensive coastline view shall be taken to ensure that the traffic studies are taking into account the current development plans of the existing ports, and their relative ability to compete with each other.

    - New port locations shall be developed at a commercially reasonable distance from existing operational ports. This distance shall be arrived at for each new port after a comprehensive study and based on existing port capacity, potential cargo forecasts, and new industrial investment plans of the government. This is also subject to the existing operational ports having adequate capacity to expand for handling similar cargo, and performing satisfactorily based on both objective and subjective considerations.

    - The additional demand created by new port development on external infrastructure (road availability, rail availability, congestion etc.) and additional investment required to address them shall also be considered before development of new port projects.

- Viability of port development under various models will be a key decision criteria. Viability assessment for a new port will be based on the coastline's traffic potential and the share of various ports in it. Integration of industrial development, transport and supply chain infrastructure will be considered for enhancing the viability

- All future Greenfield port locations identified for handling commercial cargo shall preferably be developed through private sector investment

    - Normally all private sector investment shall be enabled through a fair and transparent procurement process, employing appropriate competitive bidding mechanisms (The tenure of concessions shall be fixed in the agreement (preferably not more than 30 years with additional spells of maximum 10 +10 years).

- Ports shall be free to determine and charge tariffs (except where tariff-based bidding process has been adopted).
- As a matter of policy, the terms of the concession agreements shall not be negotiated post-bid.
- For new ports being awarded, the Board may prepare a TEFR for the project, which shall inform the base case development scenario for the port, which is prepared to fulfill the target objectives and shall be according to the Rolling Maritime Master plan and reflective of other local constraints, which shall be made available to the bidders. The bidders will however be allowed to submit alternate master plans.
- For new ports being awarded, the developers should commit in the Concession Agreement to the development milestones for realization of the full concessioned project capacity. Milestones for subsequent phases may be suitably decided on a case-by-case basis.
- Bidders will be subject to stringent qualification criteria, including prior experience in development of port projects of similar scope and capacity in the past, and case history of past defaults in port projects
- Board will endeavor to market the project and call for maximum participation in the bidding process. However if there are instances of only a single bid being received for a particular project, the following would apply
    - In case the competitive bidding process results into a sole bid, the contracting authority shall either:
        - Accept the sole bid, if the Tender Evaluation Committee is of the opinion that retendering will not yield more bids and there is clear value for money in accepting the sole bid.
        - OR
        - Reject the sole bid
    - In case the sole bid is accepted, negotiation may be undertaken with the bidder to ascertain better terms for the contracting authority, provided these negotiations result in better terms for the contracting authority than the terms outlined in the RfP document

- Any additional state support provided will be subject to a clearly established "Value for Money" analysis, where the private investment would be compared with a public sector comparator, which will be decided prior to the final bids received. Post-bid negotiations for state support will be undertaken, provided these negotiations result in better terms for contracting authority than outlined in the RfP.

### Category 2: Ports under PPP Concessions awarded to private investors

- The Government may delegate the "Agency Right" to the Board to manage the port concession agreement, land lease agreement and state support agreements with ports.

- The Maritime Board shall:
    - Evolve a formal and integrated monitoring framework for rights and obligations of both parties under the Concession, State Support and Land Lease agreements. Where necessary, the Board shall consider all options available under the agreements.
    - Ensure that capacity development at such ports isgoverned by **clauses in the Concession Agreements.** The Board shall follow a consultative approach with the port investors for further capacity development.
    - The Board shall extend to all PPP port projects fiscal and non-fiscal benefits as per the existing concession agreement and state support agreement.
    - Act to ensure sustainable development in context of environment matters by recommending expeditious equitable solutions to specific issues that may arise at a port site, from time to time.
    - The Board shall conduct periodic financial audits with the objective of scrutinizing and validating the information on the ports performance. The Board shall also conduct periodic performance audits of the operations and rolling Master Plan target realizations against the defined performance standards, and adherence of the concessionaire to contractual obligations. In addition the board shall conduct independent user surveys, and make available these reports in the public domain.

### Category 3: Ports under captive development

- Captive ports shall be defined as ports developed for the purposes of exclusively servicing the needs of a specific end user and shall be financed, developed and operated by such end user which may be an industry or any other entity.

To cater to the increasing cargo traffic, and to facilitate optimum usage of port facilities, captive ports –can be considered for development into a commercial port operating through PPP mode. The appointment of the developer for such projects would be undertaken through a transparent bidding process, as per the procedures of APIDEA Act.

### Category 4: Ports under the state, as owner-operator

- The Government may maintain certain port locations, on its own, for the purpose of provision of certain essential services or for creation of special purpose port facilities for other maritime activities like shipbuilding and ship repair, barge jetties, etc.

## 9. Land Management and Allotment Principles

- For Government Land leased to a new commercial port developer, an annual lease rate of 6% of the market value of land will be applicable, with an escalation of 2% per annum.

- Government land to port developers may be offered as annual lease or a one-time upfront lease calculated with an annual lease rate of 6% per annum of the applicable market value of land, with an escalation of 2% per annum.

- Of the land identified in the port masterplan, the State Government would endeavor to allocate the land available with the State to the Port Developer. The acquisition of the remaining land for port development would be done on a non-prejudicial best efforts basis by the State Government.

- The developer shall be allowed to sub-lease any portion of the land leased to it by the State Government. The terms and conditions of such sub-lease shall be specified in the concession agreement / state support agreement. Sub-lease of port land shall be permitted for port related activities only.

- No Objection Certificate can be granted for mortgage of leasehold rights on land in a PPP port, along with the permissible structures erected by the lessee thereon in favour of reputed financial institutions/ scheduled banks.

- Entire or part land for all Category 1 and Category 2 projects (as per port policy), may be acquired and deployed by any of the following mechanisms

    - The State Government funds the acquisition and leases the same to the private developer

    - The State Government acquires the land however the developer funds the acquisition and State Government leases the land to the private developer. The amount so provided by the developer shall be adjusted against all payments due to the GoAP within the concession period.

## 10.Corporate Social Responsibility (CSR) Initiatives

The developer shall as a part of its overall CSR initiatives undertake various measures for development of skills among the local/surrounding area populace. State Government shall extend all necessary co-operation /assistance for the same.

## 11.Fiscal and Non-fiscal incentives

For the upcoming port sector projects, the State Government shall provide fiscal and non-fiscal incentives, as listed below

- Exemption of Sales Tax / VAT/ GST and Entry tax on all inputs required for project construction until the commercial operations date indicated in the concession agreement. In case the project is taken up in different phases, the exemptions shall extend only until the commercial operation date of the project.
- Exemption of stamp duty, and registration fees on the first transfer of land.

- Exemption from payment of seignorage fees - i.e., cess on minor minerals and labour - for project construction activities until the commercial operations date indicated in the concession agreement.
- Where appropriate, GoAP would at **the** request of the developer, issue necessary recommendations to the Central Government Authorities recommending any permissible tax or duty Concessions to the Concessionaire and/or the Port Project.
- The State Government shall fast-track the development of ports by streamlining the approvals process and augmenting the pace of decision making. The Masterplan, Detailed Project Reports and modification proposals for the same submitted by the developer for approvals shall be processed swiftly. The decision shall be communicated within a period of 60 days; failing which the Masterplan and Detailed Project Reports shall be deemed approved.

Although various forms of support has been mentioned in the policy, the extent of the support will be limited to the areas of support clearly mentioned in the concession agreement

## 12.Port Proximal Area Development

- Each port on the coastline shall have a Coastal Economic Region as provided under the Sagarmala Policy. For the planned and sustainable development of Coastal Economic Regions around each port, a Coastal Economic Region Development Authority shall be (CERDA), appointed by GoAP which is primarily an integrated planning agency in the proximity of the ports, with jurisdiction over land use planning and development in port-proximal areas (surrounding 10 km - 30 km radius of the port).
    - Provided that the functions of the CERDA may also be performed by Industrial Area Local Authority (IALA).
    - Any such Authority or Agency shall have ex-officio representation and equal participation from AP Maritime Board, Department of Industries, Department of Infrastructure and the corresponding Local Governments and the concerned Public/Private Port Authority.
- The developments in the CERDA shall be incorporated into the Master Plan of the Urban Development Authority (UDA), if any. This will ensure an integrated and planned development of the area.
- The prime role of the Authority shall be to ensure that the land use planning, zoning and development regulations in the proximity of the port takes cognizance of the requirements of the port functions, through the following:
    - Inventorization of land available for supporting port functions, and planning for land use, utilities, infrastructure within the existing and future constraints
    - Planning for efficient evacuation, right of way and other connectivity projects

- Planning for large area development, including industrial parks, supply chain infrastructure etc.

- The CERDA shall function primarily as a planning authority. Wherever possible the planning proposals will be executed by the urban local body, subject to their developmental control guidelines.

- Under the CERDA, the General Manager, DIC (District Industries Center) of the concerned District from Industries Department, and the Zonal Manager, APIIC of the concerned Zone, where such port is being located, may be included as ex-officio representative to the Coastal Economic Region Development Authority (CERDA) to be constituted for each port under the policy.

## 13. Shipbuilding, Port-linked Industrial Estates, Inland Water Transport and Coastal Shipping

- The Board shall work towards promotion and development of coastal movement of cargo in a phased manner

- The Board shall also be responsible for jurisdiction over other maritime-linked industries including shipbuilding, and ship repair terminals, with appropriate locations earmarked for such developments.

- The Board shall also take steps for development of Inland Water Transport and Coastal Shipping to support the development of the coastline.

- The Board shall encourage port developers, interested in developing industrial estates or any such industrial activity along with the port being developed. Such ports however may not be captive ports. This will ensure the development of port-based labor intensive industries in the port proximal areas as a consequence of which there will be an increase in economic activity therein.

## 14. Maritime Sector Skill Development

- The Board shall promote skill development for maritime industry through establishment of various maritime institutions and skill improvement centers.

## 15. Tenure of Port Policy

This policy shall become operational from the date of its notification until it is reviewed and revised. The provisions of this policy shall be reviewed and revised at the end of every five years, based on the experience of port development functions in the preceding five year period. The policy can also be reviewed at any time during the tenure if necessary.

AJAY JAIN
SECRETARY TO GOVERNMENT